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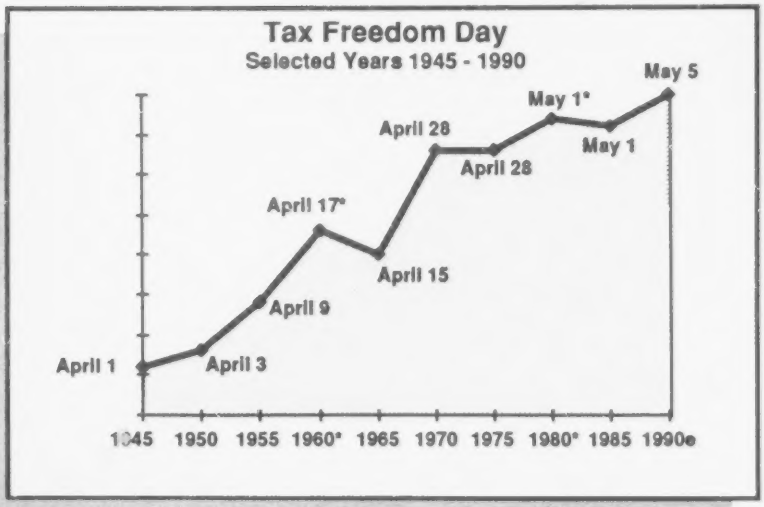
# Tax Features

## Tax Freedom Day Falls on May 5

### 1990's Date Is Latest Ever

As Americans scrambled to comply with the April 16 IRS filing deadline, they may have thought they would be free from the tax collector at the end of the day, but Tax Freedom Day doesn't come until May 5 this year.




The Tax Foundation has calculated that to be the day when the American taxpayer will have earned enough money to pay this year's total taxes. That means the average taxpayer will labor 125 days — from January 1 to May 5 — to satisfy all federal, state and local tax obligations, with every cent earned from the beginning of the year going to the tax collectors. Finally, on May 5, he will heave a sigh of relief and start pocketing some of his hard-earned money.

Especially bad news is that May 5th is the latest Tax Freedom Day ever. Last year this task required 123 days and Tax Freedom Day fell on May 3. The Tax Foundation attributes the two-day advance to several important factors: the base-broadening provisions in the Tax Reform Act of 1986; the January 1, 1990, increases in the Social Security taxable earnings base and tax rate; and the slowdown in

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**Tax Foundation**

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FRONT BURNER

### The Price of Tax Freedom Is Spending Vigilance

*Sen. Steve Symms*

When someone says "Tax Day," almost all of us think of the middle of April. I applaud the Tax Foundation for again sounding the alarm clock on complacency and reminding us that the real "Tax Day" is May 5, two days later than in 1989. From January 1 to May 5, 1990, the average American is "working for the government."

Three primary topics of my constituent mail are taxes, the deficit, and requests for support of specific programs. Congress and many other Americans currently overlook the relationship among the three subjects.

We spend too much! It is really very simple: every nickel, every dime, and every million dollars has to come from somewhere. This coming year Congress will spend more than $1 trillion, or about $4,500 for every person in the country. There are two basic sources for that money: taxes and loans. "Tax Freedom Day" helps remind us who really pays for this.

The visible costs of overspending are increased taxes, and borrowing. The hidden cost is a negative effect which finally received public attention after Dr. Art Laffer graphically simplified it. He showed that when taxes go up there can be a corresponding, exponential decrease in economic activity.

There is a discussion about repealing the Gramm-Rudman law, which cuts federal spending across the board automatically if Congress doesn't reach specific spending targets. The last thing we should do is eliminate the only mechanism we have in place to limit spending.

One change we should make, however, is

*See Symms on page 2*

*Steven Symms, Republican Senator from Idaho, serves on the Senate Committee on Finance.*

*Ed. Note: The Front Burner is a forum for participants in the fiscal arena to express their opinions on tax and budget issues. These opinions are not necessarily those of the Tax Foundation. Editorial replies are encouraged.*

*Symms from page 1*

to move the "Trust Funds" off budget, so they don't affect the Gramm-Rudman calculation. The trust funds are supported by dedicated taxes. We have gotten into the habit of running these funds at a surplus, then "investing" the surplus in bonds, whose proceeds go to funding various other programs within the government.

***"Congress will spend more than $1 trillion, or about $4,500 for every person in the country. . . .'Tax Freedom Day' reminds us who really pays for this."***

The surplus income of the Trust Funds in the "unified budget" appears to offset other spending. However, once the funds are called on to pay their obligations, the "bond investments" will have to be redeemed and the government will have to raise revenues (taxes) to pay them off.

This year the percentage of the budget that will go to pay interest on the loans which cover our deficits is about 13.5%. There are people who think that the deficit "solution" is raising taxes. Hopefully, we can convince these shortsighted people that any revenue gain lasts just long enough for people to pull their money out of our economy.

Our tax system penalizes production. You're taxed if you have earned a good job, recognized a good investment, or die after building a business or farm. One would think that we would want to encourage rather than discourage production and investment.

***"The last thing we should do is eliminate [Gramm-Rudman] the only mechanism we have in place to limit spending."***

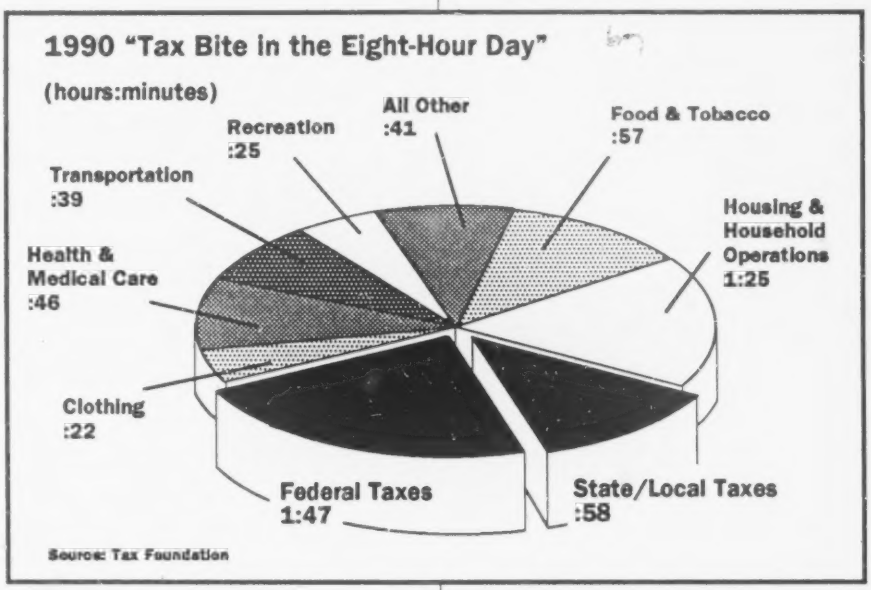
Let's get down to business. We must go back to basic economics and send more people to Washington who will work to lift restrictions on our economy instead of adding more weight to the sinker. Otherwise, "Tax Freedom Day" could eventually be in October!

# 1990 Taxes Take a Bigger Bite from The American Worker's Eight-Hour Day

Every year the Tax Foundation calculates the effect of the tax burden on the average worker's paycheck. This is the Tax Bite in the Eight-Hour Day.

In 1990, Tax Foundation analysts estimate that the average worker will spend 2 hours and 45 minutes of an 8-hour day working to satisfy federal, state and local tax collectors — three minutes more than in 1989. One hour and 47 minutes will go towards federal taxes while 58 minutes will be devoted to state and local taxes.

So with the bulk of his workday — 2 hours and 45 minutes — spent working for the tax collector, where does the average worker spend the remaining 5 hours and 15 minutes' worth of earnings? The largest portion is spent on housing and household operations: 1 hour and 25 minutes. Food and tobacco take 57 minutes while health & medical care costs absorb 46 minutes. Taxpayers will then work 39 minutes for transportation expenditures, 22 minutes for clothing, and 41 minutes for "all other" expenditures (personal care, personal business, private education, religious and welfare activities, foreign travel, and net savings). The typical worker spends the last 25 minutes' worth of income on recreation.




*Tax Freedom Day from page 1*

economic growth. The nation's nominal income is estimated to grow only 5.7 percent while the the total tax take is projected to increase 7.2 percent. Stated simply, tax increases will outpace the growth in individuals' incomes during 1990.

## Tax Freedom Day Outlook

It should be noted that Tax Freedom Day does not reflect the estimated $124 billion in federal deficit spending for 1990. It can be argued, of course, that the average worker does have a "share" of this deficit and will feel its effect through future increases in the tax burden and/or a weaker economy. This deficit, along with demands for new programs, budget crises in numerous states and the slowdown in income growth could easily make Tax Freedom Day even later on our calendars in future years.

**Now Available**

***A new Tax Foundation Special Report computes Tax Freedom Day state by state. 6pp. $10 + $2 p/h.***

# Rep. Beryl Anthony Addresses Research and Development Tax Policy at Tax Foundation Seminar

Congressman Beryl F. Anthony (D-AR), member of the House Ways and Means Committee, gave the keynote address at the March 22 Tax Foundation seminar on research and development tax policy.

Approaching the theme "R&D Tax Policy: A Study in Conflict – Opportunity for Change," Congressman Anthony pinpointed the conflict: "It is a conflict, not in whether or not people believe in research and development . . . [but] between the need to balance the budget and the need to have a permanent national policy on research and development."

The congressman has led the fight for the R&D credit. "The current allocation regulations do not provide sufficient incentives for U.S.-based research activity and we must find a permanent solution to the problem." But Congressman Anthony was not optimistic about the possibility of resolving this conflict in favor of increased incentives for R&D. Referring to the continuing battle to make the credit for research and development permanent, Congressman Anthony opined "It has been in the President's budget three years in a row. We have accommodated the President by passing it." However, budgetary constraints have blocked the adoption of the permanent credit each time.

John Magee, partner in the law firm of Miller & Chevalier, followed Congressman Anthony with a complete overview of the R&D tax credit's legislative history, including examples of how it affects the behavior of the firms it is designed for. Originally enacted in 1981 as a 25 percent incremental credit, the research credit was reduced to 20 percent in 1986 as part of the overall reduction in rates implemented by the Tax Reform Act of 1986. Mr. Magee pointed out that this was by no means the largest reduction in the value of the credit to firms. "The value of the credit eroded over time and there have been obvious pressures on it, I think many of them attributable to the budget revenue problems that Congressman Anthony alluded to." Changes in the base used for the calculation of the credit and other technical rulings have cut into the value of the credit to the point that "in 1989 the Government Accounting Office estimated that the average effective rate for the credit in the period 1981 to 1983 was 3.5 – 5 percent." Mr. Magee continued, "for large multinational companies in the U.S., the credit has eroded to the point that it is a much less significant piece of the R&D picture," with one company reporting that the credit represents less than 2 percent of its annual R&D expenditures.

***Panelists Michael J. Graetz, Deputy Assistant Secretary of the Treasury for Tax Policy, (at left) and John Magee, Partner, Miller & Chevalier.***

***Congressman Beryl F. Anthony (D-AR) addresses Tax Foundation's R&D seminar.***

Edmund K. Harding, Manager of Tax Planning and Litigation at Xerox Corporation, brought the corporate tax practitioner's perspective to bear on R&D tax policy. He pointed to other nations' tax policies, finding them to be more favorable to R&D investment than those in the U.S., and he singled out the U.S. requirement to allocate R&D spending to foreign source income as a uniquely powerful disincentive. Mr. Harding then recounted the federal government's audit of Xerox's R&D credit, a story which spoke volumes about the burden of complying with complex U.S. tax law. He concluded by commenting, "With the administration, Congress, and even the man on the street all in favor of increasing R&D, just why tax incentives to accomplish that goal are drastically reduced and are also in danger of elimination is hard to figure."

Stuart E. Eizenstat, partner in the law firm of Powell, Goldstein, Frazer & Murphy and former domestic policy advisor to President Carter, offered a guided tour of the tortuous legislative and political history of the U.S. R&D credit. He stressed the urgency of making the credit permanent. "In today's international marketplace, the U.S. can remain competitive only if it stays at the forefront of technological innovation." He went on to assert that R&D policy should have other goals as well as stimulation of research and development. "Proper R&D policy must encourage a well-trained, scientific and technical workforce. . . . the education of our current and future scientists and engineers is totally and shockingly inadequate."

***From left: Panelist Robert N. Mattson, Assistant Treasurer, IBM; Congressman Beryl F. Anthony (D-AR); and Wayne Gable, President, Tax Foundation.***

Richard A. Grafmeyer, tax counsel to the Senate Finance Committee, gave the audience a snapshot of what the tax-writing committees' current thinking is on R&D. On the issue of whether or not the credit as it stands does in fact

***See R&D on page 4***

*R&D from page 3*

stimulate R&D investment or is too small an incentive to matter much, the committees "would like to wait a couple years . . . [to] see who is gaining by it . . . If it looks like it is providing incentive, obviously there is no reason to revisit it again." He was more sanguine on the subject of making the tax credit permanent. "There is finally an understanding on the Hill that corporate tax departments . . . [cannot] figure out the financing and budgets for long-term R&D projects without knowing what the law will be in the next year. . . . R&D is way up there on the A list of most Members." Mr. Grafmeyer made it abundantly clear, though, that all hopes for legislative action in Congress this year must be viewed in the shadow of the budget deficit.

***Panelist Stuart E. Eizenstat, Partner, Powell, Goldstein, Frazer & Murphy.***

Anthony Billings, associate professor of accounting at Wayne State University, reported on a study he had recently conducted which examined the economic factors that motivate or inhibit R&D expenditures. The ratio of debt to total capital was revealed to be a barometer of R&D activity: "R&D is a positive function of equity financing." Professor Billings' ultimate conclusion was that corporate integration was the tonic needed to stimulate R&D investment. "Tinkering with the incremental R&D credit formula" is too little too late.

Robert N. Mattson, Assistant Treasurer at IBM, began by urging government officials to recognize that R&D is an incremental, long-term process. However, when the government assesses an R&D effort in regard to the credit, it does so as if R&D could be put on a timeline — to have begun here and ended there. Mr. Mattson's next theme was the necessity for cooperation among corporations and universities here in the U.S. as well as the formation of joint ventures with foreign firms. "R&D for world class products in a world market will have to be undertaken anywhere in the world where the people, resources, and knowledge exist." Lastly, he urged the adoption of substantial tax incentives for R&D, far beyond mere technical corrections, citing studies which show the extraordinary benefits that accrue not only to the investor but to related industries and society as a whole.

Michael J. Graetz, Deputy Assistant Secretary for Tax Policy at the Treasury Department, spoke in favor of stabilizing R&D tax policy, rather than making substantive changes, so that firms performing research and development can make long-term plans. He also pointed out that the 1991 Bush budget does contain an increase for civilian R&D and a doubling of the National Science Foundation budget by 1993, so the desire to help the R&D effort is there, if only the will to implement these boosts can be found despite the federal budget deficit.

***"The current allocation regulations do not provide sufficient incentives for U.S.-based research activity and we must find a permanent solution to the problem."***

***— Congressman Beryl F. Anthony (D-AR)***

***"In today's international marketplace, the U.S. can remain competitive only if it stays at the forefront of technological innovation."***

***— Stuart E. Eizenstat***

# New Tax Foundation Study Shows FY'90 Federal Tax Burden Up $81 Billion

## *Corporations Hit Hard; Individuals Hit Even Harder*

Federal taxes will climb 8.4 percent in FY1990, from $963.4 billion in FY 1989 to $1,044.5 billion, according to a new Tax Foundation report entitled *Federal Tax Burden by State.*

This analysis of the projections in the President's 1991 Budget indicates that individual taxpayers will be hit with a 9.8 percent increase, up $43 billion from last year, while corporations will shoulder a burden 8.2 percent heavier in 1990.

### Federal Tax Burden by State

The national per capita federal tax burden will rise $286 to $4,170 in FY 1990. When total federal taxes paid are ranked according to the per capita burden in each state, the largest tax burden is carried in the following nine states and the District of Columbia:

| | | | |
|---|---|---|---|
| Connecticut | $6,768 | Maryland | $5,046 |
| New Jersey | 6,239 | N.H. | 5,014 |
| D.C. | 5,770 | Delaware | 4,953 |
| Mass. | 5,577 | Alaska | 4,891 |
| New York | 5,178 | Illinois | 4,738 |

The average federal tax burden for citizens in these top ten states is $5,417, up $523 from FY 1989.

By contrast, the lowest burdens, averaging $2,849, are borne by taxpayers in the following states:

| | | | |
|---|---|---|---|
| Mississippi | $2,451 | Idaho | $2,891 |
| Utah | 2,731 | S.Dakota | 2,919 |
| West Virginia | 2,758 | Louisiana | 2,952 |
| Arkansas | 2,863 | Kentucky | 3,008 |
| New Mexico | 2,890 | Montana | 3,024 |

The Tax Foundation points out that citizens in the top ten states pay an average per capita tax burden that is $2,568 higher than that paid by citizens in the ten lowest per capita states.

### Now Available

A new Tax Foundation Special Report entitled *Federal Tax Burden by State.* 12pp. $10 + $2 p/h. (Formerly the *Memorandum on the Allocation of the Federal Tax Burden by State.*)

PRESIDENT'S MESSAGE

## Tax Foundation Mixes Popular and Technical Programs to Fulfill Educational Mandate

*Wayne Gable*

Each year, Tax Foundation economists hold up America's total tax burden to the calendar year and the workday of the average American. The results are Tax Freedom Day and the Tax Bite in the Eight-Hour Day.

The Tax Foundation does these analyses to fulfill its mission to educate Americans about the weight of government on the economy. The heavy press coverage we received this month indicates that the Tax Foundation has brought this information home to millions of Americans.

For example, the 1990 Tax Bite in the Eight-Hour Day is 2 hours and 45 minutes. This appears to be similar to the 2-hour and 43-minute Tax Bite in 1981, but a substantive difference is revealed when this chunk of the workday taken up by taxes is broken down into its federal and state/local components. In 1981, the breakdown was 1 hour and 52 minutes for federal taxes and 51 minutes for state/local taxes. In 1990 we find the burden falling much more heavily on the state/local side: 1 hour and 47 minutes for federal taxes and 58 minutes for state and local taxes.

This trend toward greater government spending at the state/local level has prompted us to conduct a much-expanded Tax Freedom Day analysis this year, computing a Tax Freedom Day for each state and the District of Columbia. We will continue to publicize Tax Freedom Day and the Tax Bite, as we did with our April 16 press conference, as long as we feel they educate people who are unaware of the true extent of government taxation and spending.

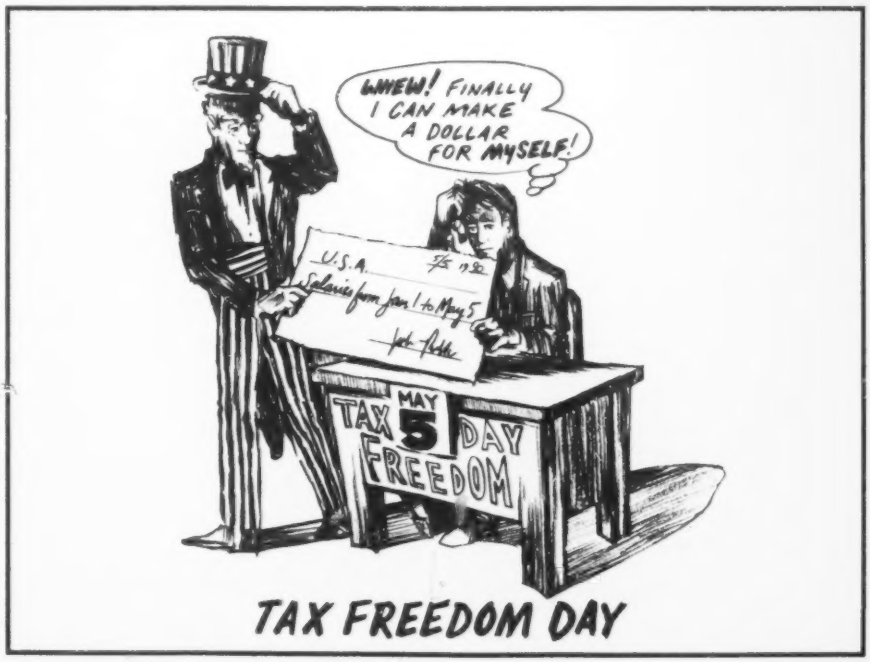
*Reporters assembled for Tax Freedom Day press conference.*

We do not stop, however, with grassroots and media education. We also serve to inform and educate specialists in the tax arena. The Tax Foundation's recent research and development tax policy seminar attracted government tax policy experts from here in Washington and corporate tax managers from around the country.

The Tax Foundation is fulfulling its stated mission to provide objective research and public education on the taxing and spending activities of government, and we will continue in our efforts to reach all Americans from the grassroots to tax specialists.

NOTABLE

- **Senate Budget Committee analysis of the Rostenkowski plan shows it reducing spending by $254.5 billion and raising revenue by $195.2 billion from 1991 to 1995. The Bush Budget would reduce spending $248.3 billion and raise revenues $16.8 billion.**
- **According to the CBO, if annual real declines of 2% in defense budget authority continue, as they have for 3 years, $91 billion in savings will be achieved from 1991 to 1995.**



## Tax Foundation Joins With CSE Foundation For Tax and Budget Policy Conference

"Tax and Budget Policy: On Trial for the '90s" is the theme of a joint Tax Foundation/CSE Foundation conference on May 23, 1990, at the Hyatt Regency on Capitol Hill. After registration from 7 – 8:00 a.m., Senator Phil Gramm will address the conference. The luncheon speaker is the Honorable Jim Jones.

In the morning the Honorable Fred Goldberg, IRS; Charles McClure, Hoover Institution; Bernard Shapiro, Price Waterhouse; and Glenn White, Dow Chemical Co., will discuss tax complexity. Rep. Bill Frenzel; James C. Miller III, Citizens for a Sound Economy; and Henry Aaron, Brookings Institution, will discuss Gramm-Rudman-Hollings.

In the afternoon, state/local tax trends will be explained by Gary Wood, Texas Research League; Steven Gold, National Council of State Legislators; Sam Brunelli, American Legislative Exchange Council; and Elliott Dubin, Advisory Council on Intergovernmental Relations. Also, "The No New Taxes Pledge: One Year Later" will be addressed by Norman Ture, Institute for Research on the Economics of Taxation; and Robert Greenstein, Center for Budget and Policy Priorities.

A reception from 4:45 – 6:30 will follow the conference. Call 202-488-8200 for more information.

## James C. Miller III and T. Boone Pickens to Address Tax Policy Seminar in Dallas

On Thursday, June 14, 1990, the Tax Foundation, in cooperation with the Financial Executives Institute and the Tax Executives Institute, will present a seminar in Dallas to address the economic/tax policy outlook. The program will feature a kickoff address by James C. Miller III, co-chairman of the Tax Foundation and former Director of the Office of Management and Budget under President Reagan. The luncheon speaker will be T. Boone Pickens, General Partner, Mesa Limited Partnership.

Panelists include John Boatright, Chief Economist, Exxon Corporation; W. Michael Cox, Vice President and Economic Advisor, Federal Reserve Bank of Dallas; Jared Hazleton, Director, Center for Business & Economic Analysis, Texas A&M University; Vernon W. Walker, President, Dallas Chapter of the Financial Executives Institute; and Paul Stein, President, Dallas Chapter of the Tax Executives Institute.

The program chairman is James P. Bryant, Vice President and Director of Corporate Taxes, J.C. Penney Company. The cost of the seminar, which is officially registered with the Texas State Board of Accountancy, is $100 per person. For additional information, contact Ron Bunn at 202-863-5454.

**QUOTABLE**

***"At 3M, taxes are the second largest expense in the manufacturing area, exceeded only by raw materials."***

**— M.D. "Buck" Menssen, Vice President – Taxes at 3M, speaking at a Tax Foundation seminar in response to a question on the costs of plant location here in the U.S. and abroad.**


### Tax Features

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